



Creating the future in an age of disruption

Transformation of the financial services CIO

“It is not the strongest species that survive,
nor the most intelligent, but the ones most
responsive to change.”

—attributed to Charles Darwin



Information technology (IT) in financial services has traditionally been viewed as an operational detail that takes a backseat to business strategy. But in today's technology-driven world, strategy and IT are inextricably linked. In fact, more often than not IT is now the primary catalyst of competitive advantage and strategic disruption in financial services. Every company is a technology company at its core. This is especially true in financial services, creating the need for a new kind of CIO.

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Technology is reshaping the financial services landscape

Technology-driven innovations are raising customer expectations and transforming the competitive landscape for financial services. Although this trend poses a significant threat to existing products and business models, it also opens the door to tremendous new growth opportunities for institutions with the will to capitalize on them.

Established financial institutions—while still dealing with the after-effects of the global financial crisis, including huge reputational losses—face mounting pressures to innovate in the face of disruptive challenges from new sources of financial services, such as Betterment, PayPal, and Lending Club. At the same time, customers have come to expect ever-increasing levels of reliability and personalization. Financial services companies today aren't just competing against other financial services companies; they are competing against the expectations established by the best digital companies in every industry, including Amazon, Facebook, and Google.

These innovative companies are steadily raising the bar for all businesses by conditioning the public to expect superior customer experiences that are constantly improving and expanding.

The potential for technology to drive massive structural change and disruption in financial services is most clearly demonstrated by the FinTech revolution. Global FinTech investment nearly tripled in 2014 to US\$12.2 billion¹, with thousands of FinTech companies² now churning out a continuous stream of breakthrough innovations to improve payment processes, reduce fraud, promote financial planning, and save users money. These fast-moving companies often operate at the edge of the marketplace—where they are relatively unencumbered by regulation and the *status quo*—enabling them to focus on customer needs and push the entrenched financial services industry forward at an unprecedented pace. Meanwhile, regulators seem to be increasingly receptive to technology innovations that create clear value for consumers.

¹ "US Investments in FinTech to Lead Globally in 2015, Following Triple Increase in 2014," www.cointelegraph.com, June 26, 2015

² "The Fintech Boom and Bank Innovation," www.forbes.com, December 14, 2015



A challenge and opportunity for CIOs



In this rapidly shifting business environment, established financial services institutions need visionary technology leadership—particularly in the emerging technology areas that may ultimately determine which companies win or lose. This is a tremendous opportunity for CIOs to increase their business value and strategic impact; however, it also presents significant challenges.

Traditionally, a CIO's primary role has been to oversee and manage an organization's IT systems, resources, and investments: responding to requests from the business for new systems and capabilities; overseeing internal IT development, operations, and maintenance; and perhaps most important, ensuring the organization's systems are always up-and-running and ready to support the business.

However, that traditional role, while still relevant, is not sufficient as IT service models continue their steady shift from internal to external resources. In fact, according to more than 1,200 senior IT executives who participated in Deloitte's 2015 Global CIO Survey, two current CIO strengths that are no longer seen as differentiators for successful technology leaders are "operations and execution" and the "ability to run large-scale projects."

This shift should not be taken as a sign that CIOs are becoming less important. Quite the opposite. In today's technology-driven financial services market, CIOs are more important than ever. But in order to meet their companies' needs, they must play a very different role—and provide value in very different ways.





Four new roles for future CIOs—and the future is now

To help their companies successfully operate and compete in a financial services marketplace driven by technology, CIOs need to expand their capabilities and responsibilities in four key areas.

Strategist and visionary

The CIO's role in shaping strategy has been expanding for years. However, in a world increasingly driven by technology innovations, having a seat at the strategy table is no longer enough. CIOs must now play a lead role in developing their companies' business strategies—having a stronger voice in management committees and other key decision-making bodies, and helping leaders across the enterprise understand and envision how emerging technologies can enable innovative new products, strategies, and business models. CIOs should be seen as respected leaders who drive shareholder value and innovation, not just as stewards of the IT shop.

To do this, CIOs need to stay abreast of new and emerging technologies—such as the Internet of Things, Blockchain, quantum computing, crowdsourcing, and artificial intelligence—as well as emerging businesses and market opportunities that are enabled by those technologies.

This will require organizations to establish their own advanced “sensing engines”: small teams tasked with helping decision-makers stay abreast of innovations and disruptive threats by identifying and assessing emerging technologies, trends, and FinTech companies—so they can understand the potential impact and separate hype from reality. Businesses that rely solely on analysts and the media are at a greater risk of being left behind.

In addition, CIOs must be able to generate creative solutions and breakthrough innovations. This will require deep knowledge of the financial services business and marketplace, as well as a deep understanding of how customers' needs and expectations are evolving—and how new and emerging technologies align with business issues and priorities to drive transformational innovation. It will likely also require reshaping how IT is organized and delivered, adopting new operating and delivery models that balance risk and agility to drive IT at the right speed.





Ecosystem orchestrator

Now that IT services can be obtained in so many different ways—including cloud platforms, established technology vendors, start-ups, external service providers and developers, alliances, acquisitions, and open source communities—a CIO's job can no longer revolve around managing and overseeing internal IT activities and resources. Instead, it must grow to include managing, orchestrating, and optimizing an IT delivery model that harnesses a full range of internal and external options.

What's more, CIOs now need the ability to communicate and collaborate across organizational boundaries—not just with business unit leaders and traditional CXOs, but also with new leaders such as Chief Digital Officers, Chief Innovation Officers, Chief Data Officers, and Chief Customer Officers—as well as with leaders of external organizations such as FinTechs and other innovative third-party service providers. And as financial services offerings become increasingly intertwined with other sectors such as retail, public sector, and healthcare, CIOs may also need to help their companies understand and manage connections to new business partners in other industries.

Startup leader

To keep pace with technology-driven startups that are fast, nimble, and innovative, financial services CIOs need the ability to operate their own organizations in a similar fashion. That means developing innovative new systems and capabilities at start-up speed, without being impeded by organizational culture and inertia, resistance to change, politics and bureaucracy, legacy systems, and the status quo. Agile software development methods can help by promoting adaptive planning, flexible development, rapid delivery, and continuous improvement. However, in an ecosystem-oriented environment it is just as important to know when and how to acquire IT services and capabilities externally by buying, renting, or partnering—rather than building everything from scratch. Internal development should generally be reserved for systems and capabilities that are truly differentiated and strategic.

To get things started more quickly and efficiently, more and more financial institutions are strategically partnering with world-class incubators and accelerators both to accelerate their own pace of technology adoption and to identify potential acquisitions. In addition, some institutions are creating their own FinTech accelerators and investment funds.





Others are creating separate start-up “challenger” businesses that can freely pursue revolutionary digital innovations, even as they continue to improve their established “champion” businesses through a more evolutionary approach, leveraging the challengers’ revolutionary innovations once they have been proven. The key is to have a portfolio of innovations to tap into as the market unfolds, rather than being locked into a single course of action.

Bridge between the past and future

Unlike true startups, incumbent institutions have extensive IT infrastructures and legacy systems that enable them to run their existing businesses. When moving into the future, these existing assets can be an advantage or disadvantage. Which established systems provide a competitive advantage? Which ones can be modernized, adapted and leveraged? Which systems are impediments that need to be replaced or scrapped? No one is better positioned than the CIO to answer such questions—and to figure out how to harness existing IT assets and capabilities to meet a company’s current needs while positioning it for the future.

In addition to their new roles, CIOs of the future will likely still have many of the same responsibilities they had in the past—particularly fiscal and operational responsibility. Winning the war for top technical talent will be more important than ever as the impact of technology in financial services continues to rise. Yet, even in a technology-driven marketplace, CIOs can expect to face continued budget constraints and will need to keep making smart decisions about which technologies to invest in, rather than chasing after every shiny new object. This will require the ability to operate at two different speeds: innovating and developing edge technologies at start-up speed, while at the same time continuing to carefully and efficiently manage their core legacy assets. It will also require the ability to quickly and smoothly integrate newly developed and acquired FinTech assets into the existing IT infrastructure.

CIOs will likely need to implement a strategy that defines the roadmap around their core IT footprint—balancing business needs, technical realities, and priorities. Failing to do so could not only limit the returns on your most entrenched assets, but could lead to reactionary tactical movements from business implementing IT functions or allowing vendors to dictate investment priorities.



Rising to the challenge



The financial services marketplace is experiencing unprecedented change—and IT is the driving force. To compete effectively, companies need visionary technology leaders who can steer them into the future. This is an exciting and challenging time for financial services CIOs. Their new roles provide tremendous opportunities for increased business value and strategic impact; however, they will likely involve taking on new responsibilities and demonstrating new capabilities that may be very different than before.

For financial services companies, the need is clear. And the time is now. Are financial services CIOs ready to meet the challenge?



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